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Money

Profits from Texas oil find could extend to Omaha; Northern Natural Gas has the pipelines, but railroads may benefit, too

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Omaha-based Northern Natural Gas said it can expand to take advantage of pipeline demand expected to come from a big new find in Texas, and that it is working on plans to profit from the discovery.

The southernmost part of the natural-gas pipeline company's system is close to the Apache Corp. field in west Texas. Austin-based Apache said Wednesday it has discovered 75 trillion cubic feet of natural gas liquids and 3 billion barrels of oil in Reeves County, an area it has named "Alpine High," and which geologists had said was unsuitable for hydraulic fracturing.

Now it is reckoned by Apache - whose shares rose as much as 13 percent Wednesday and were up an additional 7 percent Thursday - to be worth anywhere from \$8 billion to \$80 billion, depending on actual drilling and production results.

But if things work out - and highly touted energy-field discoveries don't always - scads of natural gas liquids and oil will be pumped out of the ground and sent out for sale to a world hungry for electricity and thirsty for gasoline.

As for Northern Natural Gas, getting a share of the natural gas produced in what energy-industry experts call the Delaware Basin of Texas is shaping up into a priority, said spokesman Michael Loeffler.

Northern Natural is a unit of Warren Buffett-led Berkshire Hathaway.

Loeffler said the natural gas liquids produced in the region require additional processing after initial production to be safely transported by Northern Natural's pipelines.

Those intermediate processing companies are called "midstream" in the energy biz, and the safe, transportable natural gas they wind up churning out is called "plant residue gas" - the stuff that winds up at utilities for end-use by homes and businesses.

"Northern does have the ability to expand its system and is working with midstream companies to connect to processing plants and to access the plant residue gas from this area," Loeffler said.

So far the field is producing more natural-gas liquids than oil, Apache said. The company has quietly been buying up land in Reeves County, amassing about 300,000 acres - an area big enough to hold the campus of the University of Nebraska-Lincoln 500 times. The area is sparsely populated. Balmorhea, population 435, is a centrally located town.

"There is little there in the way of infrastructure," said Tony Scott, managing director of analytics and consulting at Colorado-based BTU Analytics. "There will have to be new gas infrastructure in that area."

As for oil produced in the region, Scott said there is "very little" in the way of pipelines.

"I think it will be an open market for building oil pipelines," Scott said.

Shipping oil by rail is another alternative, one widely embraced after a previous bout of unexpected production surged out of North Dakota, when the Bakken field began to be widely exploited amid oil prices high enough to justify the expense of hydraulic fracturing.

Production increased tenfold from 2006 to 2014, to more than 1 million barrels a day. Because pipeline facilities are lacking in the region, transporting via freight train became the preferred option for getting the oil to refineries.

BNSF Railway, owned by Berkshire Hathaway, declined to comment on the Apache discovery in the Delaware Basin. The Texas-based railway, the leader in crude oil shipments, has major operations including rail lines in and out of El Paso, Texas, which is about 190 miles from Balmorhea in the Delaware Basin energy field of Reeves County.

Omaha-based Union Pacific, the second-largest freight railroad behind BNSF, also has rail lines in and out of El Paso. A company spokeswoman also said the company operates in Reeves County, the heart of the new find.

Scott, the Colorado-based consultant, said if crude-by-rail becomes an option for the Alpine High field, it would probably take the form of trucking the oil to rail terminals, where it would be loaded onto tanker cars.

But Apache said there is no immediate need for rail transportation of oil.

"Our folks do not view that as relevant at this time," Apache spokeswoman Castlen Kennedy said.

Any form of additional production and transport is expected to generate criticism from opponents. Underground pipelines as well as oil trains have attracted widespread opposition.

Leaders in Oregon want to ban crude trains from their state after a Union Pacific train crashed into a river gorge there in June. And hydraulic fracturing, or fracking, is blamed by opponents of pumping water and chemicals underground to stimulate oil and gas movement as responsible for polluted drinking water and earthquakes.

Logan Purk, a transportation industry analyst in St. Louis for Edward Jones, said it probably doesn't even make sense to move oil by train unless prices rise by almost half from the \$47 per barrel seen now.

"It would be difficult for the rails to generate an attractive return on their investment given where crude prices are," Purk said. "If crude were \$70, this would be a different story."

No pipeline nor any railroad, however, gets at or near the top by waiting around. Both BNSF and Union Pacific are facing a slump in freight shipments. BNSF's are down 7 percent year-to-date, Union Pacific's 9 percent. And Northern Natural Gas and its 2015 operating profit of \$300 million is a big part of Berkshire Hathaway's energy business, one that Chief Executive Buffett has said will garner investments from him "as far as the eye can see."

"I think there is no doubt about it," said Scott, the energy consultant. "Business development folks right now are all busy looking at the opportunities there."

Berkshire Hathaway Inc. owns the Omaha World-Herald.

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Locator Map/1 Oil field discovered

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